**Global MBA Program**

**Business Ethics**

**Case : Google in China**



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1. Brief description of the company and its business environment

In 2000, Google maintained a presence in China through a Chinese-language version of Google.com. Content on Google.com was filtered by Chinese Internet service providers, and access to the site was slow. In 2005, Google build a research and development center in China. And in 2006 Google proceeded to launch its China-based Web site, Google.cn. In 2007, Google announced a revenue-sharing cooperation agreement with China Mobile to provide high-quality mobile search products and services. In 2009, Google’s workforce in China had grown to 700 people and revenues were an estimated $300 million, around 1% of corporate revenues.

In the third quarter of 2009, Google held a market share in searches of about 31%, compared with 64% for Baidu that was a Chinese-owned search-engine company, incorporated in January 2000, which derived its revenues from keyword advertising. In 2007, the company was included in the NASDAQ 100 index and in 2008, Baidu’s revenues reached $468 million. We could find out 2 main success factors of Baidu. First, Baidu had close ties to the Chinese government and was reputed to cooperate in blocking Web sites and censoring searches on sensitive topics. Second, Baidu provided consumers with free links to download pirated music and entertainment from Chinese Web sites and overlooked infringement of copyright.

 As of June 2009, China had approximately 338 million Internet users, of whom about 24% were Google users. Three-quarters of Chinese Internet users went online every day. China was the second-biggest retail market in the world. Although only 1% of retail sales were made online in 2009, the sector was growing rapidly as the number of online shoppers surpassed 100 million.

 In January 12, 2010, Google’s statement regarding the company’s unwillingness to tolerate censorship had threatened to disrupt ongoing business relationships in China. Analysts speculated that Google would postpone or cancel the launches of two new phones, made by Motorola and Samsung. These mobile phones were to use Google’s Android operating partnership at risk was rumored to be generated advertising revenues that were shared with the major record companies like Warner Music and EMI. These companies had long complained about the willingness of Baidu to offer unlicensed music downloads for free.

1. **Brief description of the problem at hand**

The problem that Google had at hand is a conflict between corporate ethics and government policy. Google had concerns when it entered China. The Chinese government was determined to control the flow of information on the Internet and insisted on removing information from search results that it considered politically objectionable. For example, a search for “Tiananmen Square” would generate no reference to the massacre of 1989. Top Google executives had debated whether Google was compromising its principles. Google had tried to navigate, perhaps rationalize, these difficulties. Before launching Google.cn, the company stated in 2004, “Google is committed to providing easy access to as much information as possible. Google remains the only major search engine that does not censor any web pages. However, it’s clear that search results to be sensitive for political reasons are inaccessible within China. There is nothing Google can do about this. Two years later, in 2006, it stated, “By launching Google.cn and making a major ongoing investment in people, infrastructure, and innovation within China, we intend to provide the greatest access to the greatest amount of information to the greatest number of Chinese Internet users. We had a huge debate here at Google and we ultimately decided to bet on the Chinese citizen. We decided that engagement was better than estrangement.

Among Internet-based companies foreign to China, Google faced difficulties that were not unique. In 2004, Doctors without Borders claimed that Yahoo! had released to the national government the emails of certain Chinese dissidents. Yahoo! subsequently paid $1 billion for a 40% stake in Alibaba, a Chinese Internet portal that took over Yahoo!’s business. Yahoo! profited when Alibaba’s stock soared on its IPO in 2007, just as Google profited handsomely from the IPO of Baidu. Among other U.S. Internet companies, eBay exited China in 2006, leaving the online auction market to Alibaba’s Taobao. The social networking site MySpace was surpassed by Chinese social networking sites such as Tencent’s QQ.com. Meanwhile, access to Facebook and Twitter were blocked regularly by the Chinese government.

Google’s stock price had increased from $85.00 on the day of its IPO to a high of $714.87 in December 2007. The stock closed at $590.48 on January 12, 2010, and at $587.09 on January 13, after falling as low as $ 576.46. Baidu’s NASDAQ stock rose 11% on January 13, from $386.49 to $428.19. Google’s January 12 statement regarding censorship spawned a rash of comments in the media and the blogosphere. Opinions differed widely regarding Google’s motives and the likely long-term impacts on Google’s future business performance and stockholders returns.

1. **Analysis of the problem using ethics theories/concepts**

Chinese government has a position of supporting “Public Interest Theory” but on the other hand Google has a position of supporting “Pluralism Theory”. China government believes that regulation/legislation is necessary to stabilize the society and maximize public welfare, so all companies should follow this regulation/legislation. However, Google, as we know their mission, they thought that Google should organize the world’s information and make it universally accessible and useful. And they have been doing business to focus on the customers who need information, through which they could continuously accomplish the success of their business. (We can find out more details of Google’s principles in Exhibit 2.)



I would like to compare the differences between Public Interest Theory and Pluralism Theory. In case of Public Interest Theory, Chinese government thinks that regulation/legislation of flow of information is inevitable and Chinese government is concentrating on efficiency to maximize the public welfare. And in the view of China command, Chinese government thinks that it is better for government to own some parts of economy and Chinese government thinks that they should keep social custom and tradition from public policy analysis. So, Internet in China must be operated to be suitable for Chinese environment, which can be called ‘Chinternet’. On the other hand, in case of Pluralism Theory, Google is focusing on distribution and is pursuing the freedom of information. And Google thinks that they should provide various users with best user experience in the view of network China which is operating on the basis of high value flow of knowledge. All in all, Google and U.S. government think that the freedom of information and the confidence of cyberspace are very important.

1. Recommendations for the company

Our team discussed why Google left China. According to the case, Google exited China since Google was no longer willing to censor search results. However, we could reach a following conclusion. The more fundamental reason why Google left China is not censorship or freedom of information but its business failure in China. We could find out the above reasons in most of the press such as Times, Forbes and Economist etc. As Google mentioned, if Google pursued Pluralism, and if Google tried to realize its own ethics, Google should have remained in China and made an effort to change Chinese market. So, the answer of our team is ‘No’ about the question that Google made right decision. According to Pluralism theory, Public sector outcome reflects pluralism of interests. Therefore, Google should have tried to let Chinese government have a choice to depend on interactions and should make random events to produce opportunities for change.